Sheffield City Region MAYORAL COMBINED AUTHORITY

TRANSPORT BOARD

10th January 2020

DELIVERING THE TRANSFORMING CITIES FUND PROGRAMME

Purpose of Report

This report sets out how the City Region intends to work with scheme sponsors to deliver the Transforming Cities Fund programme by March 2023.

Thematic Priority

Secure investment in infrastructure where it will do most to support growth.

Recommendations

That members of the Transport Board:

- Note the scale of investment and timescales associated with the Transforming Cities Fund
- Note the ongoing work highlighted in Section 2 that would enable SCR to offer appropriate leadership and support to partners to help ensure successful scheme delivery
- Recommend to the MCA a new approach to enable earlier release of scheme development funds (as set put in section 2.14), noting that this includes changes to the current levels of delegated responsibility
- Recommend to the MCA a revised approach to approving different stages of business case development, noting that this includes changes to delegated responsibility as set out in sections 2.15 and 2.16.

1. Introduction

1.1 The Strategic Outline Business Case (SOBC) for the Transforming Cities Fund (TCF) was submitted to the DfT on 27th November 2019. A decision is expected before March 2020.

1.2 The development of a large capital programme requires significant early investment to ensure constituent projects deliver robust business cases. This is especially important with this programme given the 3-year delivery timeframe.

1.3 This paper proposes that the Transport Board considers recommending to the MCA that TCF scheme development funding should be made available earlier on in a project's life as well as how TCF scheme development and construction could be delivered differently. The paper also proposes arrangements for the appraisal and approval of TCF schemes. The recommendations only relate to the SCRs TCF programme and no others.

2. Proposal and justification

2.1 The TCF programme will be judged a success by Government if SCR delivers a time-limited complex programme to time and budget. Given the size of the programme and the limited period to deliver schemes a ‘business as usual’ approach to delivering the programme is unlikely to succeed. Attention is now focused on proposing the best possible arrangements to deliver efficiently and effectively, ensuring that we have procedures to aid project and programme delivery.

This paper looks at two programme level risks that have been identified that could be constraints on our ability to deliver the programme on time and budget. They relate to the availability of resources to deliver the programme (both internal and external) and funding scheme development costs. It also considers project leads and how projects will be approved.

2.2 The final SCR TCF SOBC included three funding scenarios for capital programmes that need to be delivered over the four years to March 2023. The final values were:

- Low - £185 million
- Medium - £200 million
- High - £229 million.

These values include 5% inflation across the funding period and an allowance for risk drawn from a quantified assessment of the risks identified in the risk register

Programme Delivery key issues

Project leads

2.3 To be efficient and effective in delivery, an important principle is that schemes should be delivered by those best placed to do so, which has tended to mean those that are solely/predominantly public transport should be led by South Yorkshire Passenger Transport Executive (SYPTE), active travel schemes by District partners and multi-modal schemes (that combine both) by District partners too.

2.4 However, there are some individual schemes or groups/packages of schemes that may not be considered as ‘business as usual' because they are cross-boundary, they are more complex/higher risk, or they involve external partners (e.g. Northern Trains or Highways England). Therefore, there needs to be an early decision about who is best to lead each project/package.

Procurement of specialist support

2.5 Partners have also told us that in ‘scaling up’ to deliver such an ambitious programme, they will need to use the commercial market (especially for construction), but the extent of this input is still being assessed. Initial discussions with representatives of the construction industry have suggested that having ‘packages’ of schemes is more likely to lead to economies of scale and will be more appealing to the market. The packages could be thematic, cross-boundary or based on project size.

2.6 Delivering construction packages externally could lead to improved cost certainty through ‘early contractor involvement’, investment in specialist design skills, capacity over and above local Direct Labour Organisations (DLO’s) and specialist construction skills for more complex projects such as West End Lane Bridge in Doncaster. Although this approach leads to a reduction in local partner control and complexities through approval processes, these issues have been well managed by partners in the past. There is a risk that there will be a lack of capacity in the market due to pressures of national infrastructure and other TCF programmes, SCR are looking at mitigating this by early engagement.

2.7 SCR will continue to work with partners to understand where additional construction resource is required with a view to be able to offer SCR as a lead to access appropriate support. Packages of work would be devised in consultation with the market to maximise benefits. Management of a pipeline of coordinated projects coming to the market would reduce the risk that Local Authorities are disadvantaged by others monopolising limited resources.

Funding of scheme development costs

2.8 Once the different packages and delivery arrangements have been finalised, the next stage is scheme development and progress through the business case process. Investment in high quality business case development will significantly decrease the likelihood of schemes needing to be reconsidered and revised at a later date, reducing the likelihood of increasing costs as well as increasing the likelihood of successful programme delivery.

2.9 The capital programme in the SOBC is made up of specific schemes and an estimate of the scale of funding required to deliver them. However, the development of a capital scheme business case is a three staged process that could involve significant costs. The key outputs of each business case stage are:

Strategic Outline Business Case (SOBC): The TCF bid was the SOBC stage.

- Confirming the strategic need for the project
- Scoping of the project – having assessed the long list of options and identified the preferred way forward

Outline Business Case (OBC):

- Options appraisal – leading to an understanding of the preferred scheme option
- Surveys, initial 'outline' design work and good quality construction cost on the preferred option
- Completion of necessary regulatory processes
- Consultation – to understand support for the scheme and how it will be delivered
- Costing of tasks required to get to FBC

Full Business Case (FBC):

- Completion of detailed design work
- Better cost certainty following procurement process, leading to a construction partner
- Confirmation of all project management arrangements

Each of the business case stages provides greater certainty of scheme costs and delivery, with the OBC and FBC being assessed by SCRs appraisal panel before making a recommendation on how the scheme should progress.

2.10 Because of the size of the programme SCR partners are seeking an improved ability to 'cash flow' project development costs through SCR allowing partners to recoup their expenditure earlier than they can now. To be clear, these are costs that could be recouped as part of the project at a later stage anyway.

2.11 Business case development is always undertaken with the risk of a capital project not proceeding. If this happens (and a capital 'asset' is not created), the cost of the project to that point should be treated as 'revenue' expenditure, with repayment of any grant from SCR required as this risk would always need to be retained by the promoting partner authority and not SCR.

2.12 Although the detail of the development costs will vary considerably depending on the size and type of scheme in the programme, as a rule of thumb (and at a programme level) it can be assumed that the cost of the two initial Business Cases (SOBC then OBC) could be around 2% of the total capital cost of the programme, with additional design, procurement and other fees adding an additional 10% to enable the scheme to move from OBC to FBC. This should be based on actual confirmed estimated costs associated with specific projects. An assumption of 12% fees equates to around £28m on a £229m programme.

2.13 Partners have shared with us that continuing to only enable costs to be recouped at FBC stage is likely to lead to a risk of them working on a limited number of business cases at any one time, which in turn increases the likelihood of the programme not being delivered in full by 2023.

2.14 In order to support delivery partners straight away, it is recommended that funding should be released earlier than at present – with a simple 2% of the total scheme cost (as included in the bid/SOBC) being used as a rate to facilitate the development of their OBC. Following approval of the OBC is it proposed that additional funding should be released to assist with final scheme development of the Full Business Case.

Business Case approval

2.15 It is proposed that OBC would be the primary scheme appraisal and decision-making point, the OBC would then be approved by the MCA. The anticipated costs to develop an FBC should be included within an OBC and so would also be approved by the MCA, subject to an appropriate level of detail being provided.

2.16 The primary purpose of an FBC should be to confirm the schemes costs and delivery approach. DfT have confirmed that the TCF schemes should be managed as a programme, so it is recommended that - as long as value for money is maintained, cost increases post OBC are no more than 10% and any increase can be managed within the overall programme, that FBC's be approved by a Statutory Officer within the Executive Team, in consultation with the Chair of the Transport Board. 10% is suggested as this is consistent with the level of programme level risk: any projects with cost increases of more than 10% would have to be approved by Transport Board and/or the MCA. This revised approach is designed to ensure that there is full visibility of the programme, whilst reducing the potential effect of the eight- week meeting cycle of the full MCA meeting.

3. Consideration of alternative approaches

3.1 Funding of Scheme Development Costs

The current approach would see promoters continue to be able to recoup costs once a scheme is approved and in contract. This approach may increase the risk that partners would be limited in the number of business cases they could develop at any one stage and therefore increase the risk of the TCF programme not being delivered in full by 2023.

An alternative approach would be for development funds to be paid at conclusion of OBC. Although this would still be welcomed by partners, it leaves a residual risk that partners don't have the resources to develop schemes from SOBC to OBC.

An alternative approach would be for Local Authorities to borrow to cashflow business case development from SOBC to FBC. Borrowing costs could be capitalised which would have the effect of spreading the interest charge over the life of the asset.

An alternative approach is for SCR to use existing frameworks to engage directly with consultants to secure the necessary resources to deliver a high quality OBC, then FBC. This approach has the potential advantage of economies of scale and securing the market early but could add in another contractual layer that would need to be managed.

3.2 Business Case approval

It would be possible to retain the current approach for Business Case approval however the meeting cycle timescale (MCA approvals at OBC and FBC) could significantly slow down scheme delivery.

4. Implications

4.1 Financial

This paper recommends that scheme development costs within the TCF programme can be recouped earlier in a schemes life than they can now. This is a decision that can be made locally, but any costs of developing schemes that don't then progress would become a revenue liability, with repayment of any grant from SCR required as this risk would always need to be retained by the promoting authority and not SCR.

Although we do not have any 'grant conditions' from the DfT yet, other grants from the Department have enabled this approach. Although any recommendation in this paper would have to be in alignment with grant conditions, DfT have previously been clear that adopting this revised approach would be a local decision.

4.2 Legal

No specific legal implications have been considered at this stage, however, there would be a contractual arrangement (including grant conditions) required with scheme promoters as indicated in section 2.8.

4.3 Risk Management

The key risk is that capital monies are 'advanced' to fund scheme development costs on schemes that may not then progress – and these costs should become a revenue liability. This liability must be retained by the promoting authority and not SCR.

The development of robust, transparent, proportionate and efficient systems for delivering TCF is a key part of managing a successful programme and the significant risks associated with delivering a large programme in a relatively short time frame.

4.4 Equality, Diversity and Social Inclusion

No specific equality, diversity and social inclusion issues are considered at this stage.

5. Communications

5.1 No communications are proposed in relation to this report.

6. Appendices/Annexes

6.1 Nil

Report Author	David Whitley
Post	Senior Programme Manager (Transport)
Officer responsible	Mark Lynam
Organisation	Sheffield City Region
Email	mark.lynam@sheffieldcityregion.org.uk
Telephone	0114 220 3445

Background papers used in the preparation of this report are available for inspection at: 11 Broad Street West, Sheffield S1 2BQ

Other sources and references: n/a